

Minneapolis Community Development Agency

Request for City Council Action

Date: December 16, 2003

To: Council Member Lisa Goodman, Community Development Committee
Refer to: MCDA Board of Commissioners

Prepared by: Cynthia Lee, Manager, Multifamily Housing Development, Phone 612-673-5266

Approved by: Lee Sheehy, Executive Director
Chuck Lutz, Deputy Executive Director _____

SUBJECT: Approval of Guidelines and Criteria for the Limited Equity Cooperative Pilot and AHTF Seed Money Programs

Previous Directives: The 2004 CPED budget includes funding for both of these proposed programs.

Ward: City-wide

Neighborhood Group Notification: The proposed guidelines were transmitted to all neighborhood groups and other interested parties for a 45-day review and comment period.

Consistency with *Building a City That Works*: Complies with Goal 2, Strategy A, to preserve and expand the number of affordable housing units throughout the city.

Comprehensive Plan Compliance: Complies

Zoning Code Compliance: Will comply

Impact on MCDA Budget: None

Living Wage / Business Subsidy: Not applicable

Job Linkage: Not applicable

Affirmative Action Compliance: Will comply

Crown Roller Mill,
105 Fifth Ave. S., Suite 200
Minneapolis, MN 55401-2534
Telephone: (612) 673-5095
TTY: (612) 673-5154
Fax: (612) 673-5100
www.mcda.org

Recommendation:

City Council Recommendation: Approval of the Limited Equity Cooperative Pilot and AHTF Seed Money program guidelines and criteria as described herein.

MCDA Board Recommendation: Approval of the Limited Equity Cooperative Pilot and AHTF Seed Money Program guidelines and criteria as described herein.

AHTF Seed Money Program

In May of 2003, the Mayor added \$1,300,000 to the year 29 CDBG Multifamily/AHTF budget for new leveraging initiatives. The Mayor designated these funds to be administered under the existing AHTF process and guidelines with additional criteria for new rental housing initiatives. In addition, the CPED 2004 budget includes \$1,000,000 from the Hilton Legacy funds for a new public housing initiative.

The attached guidelines and criteria were developed by the AHTF Revenue Committee and reviewed and discussed by the AHTF Advisory Group. These guidelines create three new initiatives:

- Capitalization of new public housing units in non-concentrated areas using 100 units of MPHA ACC authority currently available.
- Matching funds for rental developments with funding commitments from faith-based organizations.
- Matching funds for rental developments with funding commitments from Xcel, Minnegasco/Center Point Energy or other similar entity (including material suppliers) for energy-efficient and/or sustainable building construction.

Funds will be offered in the spring 2004 AHTF RFP (February application deadline, May funding approvals). If the funds are not fully awarded in the spring RFP round, the remainder will be carried forward into the fall AHTF RFP round. Seed Money funding awards for the selected projects will be forwarded to the City Council for approval together with the other AHTF funding recommendations. The program as proposed will not create any new CPED administrative or staffing responsibilities and developers will not be required to submit any additional application materials.

Limited Equity Cooperative Pilot Program

In response to recent City Council direction, staff has developed several new initiatives to increase affordable ownership housing development. This pilot program for gap financing for limited equity cooperative development is designed to address a number of city housing goals and priorities.

The funds would be available for projects such as the following:

- The conversion of leasehold coops to limited equity coops as a result of **expiring tax credits**.
- Affordable and mixed income **family ownership housing**.
- Affordable and mixed income **senior ownership housing**.

Eligible projects would include preservation and production projects containing 10+ units and conforming to the city's affordable housing policy. The limited equity cooperative structure provides a mechanism for long term (30+ years) affordability. Buyers are able to accumulate (limited) equity over time. In addition, the cooperative model provides an opportunity for resident empowerment and involvement in the decision-making process.

Upon approval of the attached program guidelines and criteria, the program will be offered in a spring RFP process consistent with AHTF dates. Program funding awards for the selected projects will be forwarded to the City Council for approval.

There appears to be considerable interest in this program from a variety of practitioners in the cooperative field.

The proposed source of funds for the program is the 2004 levy (\$800,000) and Multifamily Housing bond fees (\$200,000). It is estimated that these funds will assist approximately 25-35 housing units. This is a one-time source of funds; if the city were to make this an ongoing program, other funding sources would need to be identified.

SUMMARY OF PUBLIC COMMENTS

1. Minneapolis Consortium of Community Developers (MCCD) - recommends not designating funds within the AHTF. Percentage of leverage/match requested is unrealistic. Coop program should be broader - gap funding for affordable ownership.
Staff comment - EZ, NRP and ESG funds are already designated within the AHTF. This would be very similar. We have reduced the percentage of leveraged funds required from 15% to 10%. If there is little or no response to the Coop program, the funds could then be designated for a broader ownership gap funding program.
2. Legal Aid Society of Minneapolis - supports the concept of a new public housing development initiative. Recommends stronger priority for units at <30% MMI.
Staff comment - units at <30% are a high priority (points) under the existing selection criteria for the AHTF. The proposed selection criteria for the Coop program have equal relative priority but units at <30% MMI will score maximum points under "level of affordability".
3. Powderhorn Residents Group - recommends creating fewer new, separate programs. Recommends sufficient funding for projects to move ahead. Recommends smaller matching fund requirements. For the coop program, recommends market analysis regarding large family and senior populations, definition of level of affordability, targeting funds to just the affordable units.
Staff comment - the attached guidelines have been clarified to address these comments.
4. Jeff Washburne, CLCLT - questions whether equity cooperative housing attains permanent affordability.
Staff comment - Like rental housing, cooperatives remain affordable for the term of the financing (generally, 30 or 40 years).
5. The Limited Equity Cooperative Pilot Program received a number of positive comments from the financing and development community, including HUD/FHA.
Staff comment - there appears to be a need for this type of gap funding combined with FHA's existing coop financing products and other similar programs.

NOTE: Draft guidelines for the Perpetual Affordable Program and the Higher Density Corridor Program are out for 45 day review and comment (through January 20th). Staff will forward a report to the City Council to approve these guidelines in early February.

Proposed "Seed Money" Program Guidelines and Selection Criteria (\$1.3M CDBG and \$1M Hilton Legacy Funds):

Primary Objective: The "Seed Money" concept seeks to create an incentive to attract new outside funding resources to Affordable Housing Trust Fund (AHTF) rental housing projects.

Eligible Costs: "Seed Money" funds may assist either new construction or rehabilitation/acquisition/conversion rental housing projects (preservation/stabilization projects are not eligible). In general, projects must meet all AHTF eligibility and affordability thresholds. Consistent with the AHTF program, Seed Money funds will be provided in the form of a deferred loan (generally 1% for 30 years). Developers must demonstrate site control and meet all other AHTF requirements. Seed Money funds must be expended for CDBG-eligible projects. Eligibility of new construction projects is restricted accordingly.

Process: Year 29 CDBG Multifamily/AHTF funds of approximately \$1.3M plus Hilton Legacy funds of \$1M will be offered in the February 2004 CPED AHTF RFP for affordable and mixed-income rental housing proposals.

Approximately one-third of the Seed Money funding will be set aside for each of the three program concepts outlined below. Approximately one-half of the Seed Money funding will be set aside for non-concentrated areas.

It will be the developer's responsibility to obtain commitments for the leveraged/matching resources. "Commitment" will mean a preliminary commitment or letter of interest from the proposed matching fund entity. Land donations may be counted as a matching fund commitment.

1. Capitalization of new public housing units in non-concentrated areas using 100 units of MPHA ACC authority currently available. The MHOP/CHOP model (mixed-finance, mixed-income) is encouraged to leverage other resources. Combined other non-AHTF resources must equal at least 50% of total development costs.
2. Matching funds for rental developments with funding commitments from faith-based organizations. The amount of this commitment must equal at least 10% of total development costs and combined with other non-AHTF resources must equal at least 50% of total development costs.
3. Matching funds for rental developments with funding commitments from Excel, Minnegasco or other similar entity (including material suppliers) for energy-efficient and/or sustainable building construction. The amount of this commitment must equal at least 10% of total development costs and combined with other non-AHTF resources must equal at least 50% of total development costs.

Criteria: The existing AHTF selection criteria (point structure) will apply.

Proposed "Limited Equity Cooperative Pilot Program" (\$1M levy/bond fees)

Primary Objective: Gap financing for limited equity (ownership) cooperative development; funds would be available for projects such as the following:

- Leasehold coops converting to limited equity coops as a result of **expiring tax credits**. (Funds would be used for rehabilitation and **preservation**. The project would remain affordable at similar levels.)
- Affordable and mixed income **family housing**.
- Affordable and mixed income **senior housing**.
- The limited equity cooperative structure provides a mechanism for long term (30+ years) affordability. Buyers are able to accumulate (limited) equity over time.

Eligible Costs: Eligible projects will include preservation and production projects containing 10+ units and conforming to the city's affordable housing policy. Twenty percent of the units must be affordable at <50% MMI. Maximum per-unit gap funding of \$35,000 for each affordable (<50% MMI) unit. CPED funds will generally be structured as long-term low-interest deferred loans, as either blanket loans to the cooperative or individual share loans.

Process: A spring RFP process consistent with AHTF dates.

Criteria: Priority for projects meeting the following criteria.

- Financial feasibility and readiness: 0-10 points.
- Leverage/matching funds: 0-10 points.
- Preservation of expiring tax credit units: 0-10 points.
- Large family housing: 0-10 points.
- Senior housing: 0-10 points.
- Level of affordability: 0-10 points (maximum points for units at <30% MMI).
- Demonstrated organizational capacity: 0-10 points.
- Quality of management plan and coop training plan: 0-10 points.
- Neighborhood support: 0-10 points.
- Quality of design: 0-10 points.
- Proximity to transit and jobs: 0-10 points.